

Message Text

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SUBJ: RONNIE REPORTS ON AID GROUP MEETING AND ENIES RUMOURS

OF RUPEE REVALUATION

REF: (A) STATE 117532, (B) COLOMBO 2615

1. BEGIN UNCLASSIFIED

ON JUNE 6, FINANCE MINISTER RONNIE DE MEL MADE HIS PUBLIC REPORT ON THE PARIS AID GROUP MEETING (REFTEL A) BEFORE THE PARLIAMENT. THE MINISTER STATED THAT DONOR COUNTRIES AND INSTITUTIONS HAD EXPRESSED FULL SUPPORT FOR THE "SOUND ECONOMIC AND FINANCIAL POLICIES OF THE J.R. JAYEWARDENE GOVERNMENT," AND HAD PLEDGED A RECORD RS. 6.1 BILLION (APPROXIMATELY \$385 AT THE CURRENT EXCHANGE RATE) FOR DEVELOPMENT PROJECTS OTHER THAN MAHAWELI. OF THIS AMOUNT, RS. 1,694 MILLION (\$107 MILLION) WOULD BE GRANTS, WHILE THE REMAINDER WOULD BE LOANS ON VERY CONCESSIONAL TERMS.

2. THE MINISTER SAID THERE WOULD BE A SPECIAL AID GROUP MEETING NEXT JANUARY TO CONSIDER THE AMOUNT OF SUPPORT FOR THE MAHAWELI PROGRAM, BUT THAT MORE THAN RS. 6 BILLION IN MAHAWELI PLEDGES HAD ALREADY BEEN RECEIVED FROM VARIOUS BI-

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LATERAL DONORS AND WORK WOULD BEGIN IMMEDIATELY ON VICTORIA, KOTOMALE, RANDENIGALA, MANURA OYA, ULHITIYA, AND POSSIBLY MORAGAHAKANDA. HE ALSO NOTED THAT THE VOLUME OF AID FOR MAHAWELI AND OTHER DEVELOPMENT PROGRAMS WOULD BE SUFFICIENT TO COVER A PORTION OF THE LOCAL COSTS, IN ADDITION TO FOREIGN EXCHANGE COSTS, WHICH WOULD EASE THE BURDEN ON THE COUNTRY'S BUDGET.

3. MINISTER DE MEL REPORTED THAT A NUMBER OF SMALLER COUNTRIES SUCH AS SWEDEN, NETHERLANDS, AND NORWAY WOULD BE SIGNIFICANT AID DONORS, AND SRI LANKA "IS NO LONGER DEPENDENT ON THE LARGE COUNTRIES AND BIG POWERS ALONE." HE SAID HELP WAS ALSO EXPECTED FROM THE SOCIALIST COUNTRIES AND OPEC. HE POINTED OUT THAT A DELEGATION FROM THE SAUDI FUND FOR DEVELOPMENT WAS PRESENTLY IN THE COUNTRY FOR DISCUSSIONS WITH GOVERNMENT LEADERS. THE MINISTER CLOSED HIS PRESENTATION WITH AN EXHORTATION TO HIS COUNTRYMEN TO WORK HARD IN ORDER TO TAKE MAXIMUM ADVANTAGE OF THE LARGE AMOUNT OF AVAILABLE FINANCIAL ASSISTANCE.

4. ON A SEPARATE ISSUE, MINISTER DE MEL RESPONDED TO NEWS-PAPER SPECULATION ON A POSSIBLE REVALUATION OF THE RUPEE. THE LOCAL PRESS HAD PICKED UP THE MINISTER'S STATEMENTS IN STOCKHOLM IN WHICH HE SPECULATED THAT HIS GOVERNMENT'S ECONOMIC POLICIES WOULD SO STRENGTHEN THE SRI LANKAN ECONOMY THAT THE RUPEE MIGHT RISE IN VALUE. HAVING RECENTLY GONE THROUGH A REVALUATION AND A DEVALUATION, THE LOCAL BUSINESS COMMUNITY IS PREPARED TO EXPECT ANYTHING, AND EXPORTERS IMMEDIATELY BEGAN PROTECTING THEMSELVES WITH FORWARD FOREIGN EXCHANGE COVER. THE MINISTER SAID THAT THE PRESS HAD "MISINTERPRETED" HIS STATEMENT, AND BECAUSE THE RUPEE IS FLOATING "THE QUESTION OF REVALUATION OR DEVALUATION DOES NOT ARISE." END UNCLASSIFIED.

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COMMENT: AS WAS TO BE EXPECTED, MINISTER DE MEL DID NOT MENTION THE CONCERNS EXPRESSED BY DONORS IN PARIS ABOUT FLOUR PRICES AND THE EFFECTIVENESS OF THE GOVERNMENT'S PROGRAMS TO DEAL WITH UNEMPLOYMENT. NOR DID HE GIVE ANY INDICATION THAT THE EXPECTED LARGE INCREASE IN AID FLOWS WILL HAVE SERIOUS INFLATIONARY IMPLICATIONS FOR AN ECONOMY ALREADY SUFFERING FROM RAPIDLY ESCALATING PRICES. (THE WHOLESALE PRICE INDEX FOR JANUARY 1978 WAS 28.4 PERCENT HIGHER THAN THE PREVIOUS JANUARY.) MOREOVER, AS INDICATED IN REFTEL B, THE GOVERNMENT OF SRI LANKA'S SUCCESS IN ATTRACTING GREATER AID FLOWS MAY BE UNDERMINING ITS WILL TO IMPLEMENT SOME OF THE POLICIES THAT HAVE MADE THE COUNTRY ATTRACTIVE TO DONORS.

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